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C O N F I D E N T I A L SECTION 01 OF 06 BUENOS AIRES 000117

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WHA FOR A/S TOM SHANNON, PDAS CHARLES SHAPIRO AND PATRICK
DUFFY
NSC FOR DAN FISK
SOUTHCOM FOR POLAD AND J5 FOR JUAN RENTA
USDOC FOR 4322/MAC/OLAC/BASTIAN/PEACHER

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TAGS: [PREL](#) [ECON](#) [ENRG](#) [EINV](#) [EFIN](#) [ETRD](#) [AR](#) [BO](#) [VE](#)

SUBJECT: MINISTER DEVIDO DISCUSSES BOLIVIA AND THE GOA'S
ECONOMIC PLANS WITH A/S SHANNON

Classified By: Ambassador Lino Gutierrez for reasons 1.4 (B) and (D)

Summary

¶1. (C) Minister of Planning Julio DeVido received Assistant
Secretary Tom Shannon on January 12. A/S Shannon and DeVido

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discussed recent developments in Bolivia and the need to
engage with the new Evo Morales government. DeVido argued
that it is important to help Morales consolidate his
leadership to prevent a radicalization of his currently
divided movement. DeVido added that the GOA wants to propose
the establishment of a fiduciary fund that would facilitate
the purchase of Bolivian natural gas in change for Argentine
industrial goods and services. A/S Shannon expressed concern
about Morales' insults of the U.S. and the separation that
this creates between the two governments, as well as Morales'
potentially negative impact on U.S. counternarcotics efforts.

DeVido also summarized the GOA's recent economic
accomplishments and his ongoing efforts to encourage U.S.
companies to invest in Argentina. DeVido is one of President
Kirchner's closest and most trusted lieutenants. One of his
top priorities is to ensure that the Argentine economy has
sufficient energy supplies to continue to support Argentina's
rapid economic recovery. DeVido understands that Bolivia is
the key to obtaining the necessary supplies of inexpensive
natural gas without a dramatic increase in the domestic
natural gas prices. End Summary.

Divisions in Bolivia and the Morales Team

¶2. (C) Minister of Planning Julio DeVido received Assistant
Secretary Tom Shannon on January 12. De Vido was accompanied

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by economic advisor and Secretary of Communications Guillermo Moreno. A/S Shannon was accompanied by the Ambassador, Economic Counselor (notetaker) and Poloff. A/S Shannon said the purpose of his visit was to obtain Argentina's point of view on recent developments in Bolivia and the possibilities for the United States' bilateral relationship with that country. It will be a challenge, but there is a space for a bilateral relationship with the Evo Morales government. The U.S. has had a close relationship with Bolivia in the past and is Bolivia's largest donor. This assistance includes not just anti-narcotics assistance, but also economic and institutional development aid. The U.S. would like to maintain this relationship. The fact that the recent political change in Bolivia, from the collapse of the Sanchez de Losada government to the election of the Morales government, has taken place within the context of the Bolivian Constitution is an important accomplishment.

13. (C) DeVido responded that the GOA has the same questions about Bolivia. He observed that it is a country that is divided between the "Altiplano," which is populated by indigenous peoples, who are themselves divided among ethnic groups, and the "valle," which is populated by "Europeans." The Altiplano lives off the valle and Morales represents the poor indigenous people in the altiplano. The GOA has a good relationship with Argentine "piquetero" leader Luis D'Elia who in turn has a close relationship with Morales. D'Elia has said that Morales has not consolidated the leadership of his political movement, which is divided between indigenous and non-indigenous leaders, such as vice-president-elect Garcia Linera. DeVido reasoned that Morales is more open to dialogue than Garcia Linera and others. Consequently, it is important to help Morales consolidate his leadership. If not, the Morales government's relationship with Brazil and Argentina will radicalize. Latin American societies also

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need strong leaders and Bolivia will not develop without such a leader.

14. (C) DeVido added that he has tried to meet with the Morales team on two occasions but these meetings did not take place due to internal struggles between Garcia Linera and members of the indigenous faction. Morales, Garcia Linera and two Bolivian natural gas experts are scheduled to come to Buenos Aires on January 17 and this will be the GOA's first opportunity to meet with the Morales team.

Dependence on Bolivian Natural Gas

15. (C) DeVido said that Morales' most immediate policy is to increase the price of the natural gas that Bolivia sells to Argentina and Brazil. Argentina consumes 130 million cubic meters of natural gas per day, exports 20 million cubic meters per day to Chile, and imports 5 million cubic meters per day from Bolivia. This is much different than Brazil, which consumes 65 million cubic meters per day and imports 27 million cubic meters per day from Bolivia. As a result, Brazil is much more dependent on Bolivian natural gas than Argentina. Argentina also pays a little less for Bolivian gas than Brazil because Argentina imports "dry gas" (i.e., natural gas after the more valuable liquid petroleum gas has been removed) and Brazil imports "wet gas." The GOA is now trying to negotiate the long-term purchase of an additional 20 million cubic meters of natural gas per day from Bolivia to supply the proposed USD 1.2 billion Northeastern Natural Gas Pipeline (GNA). This pipeline would provide natural gas for the provinces of Salta, Jujuy, Formosa, Chaco, Corrientes, Misiones, Entre Rios and Santa Fe, including the industrial center and port of Rosario. This pipeline would take two years to build from the day the project is approved. If Morales asks for a price that is too high, the project

will not be feasible. (Comment: DeVido told CODEL McConnell on the previous day that President Kirchner would be visiting President Lula in Brasilia January 18 and that the price that Argentina and Brazil pay for Bolivian natural gas would be part of their discussions. See septel. End Comment.)

¶6. (C) DeVido said that the GOA wants to propose the establishment of a fiduciary fund that would facilitate the exchange of Bolivian natural gas for Argentine industrial goods and services. The fund would be similar to the fiduciary fund that Argentina has established with Venezuela to facilitate the exchange of Venezuelan fuel oil for Argentine industrial goods and service and agricultural products. DeVido explained that natural gas is the only commodity that Bolivia has to trade and that foreign companies are the only companies that have the necessary technology to develop this resource. DeVido claimed that the Argentina-Venezuela fiduciary fund has produced results, causing Argentina's bilateral trade with Venezuela to increase from USD 100 million to USD 900 million per year. DeVido concluded that the GOA currently pays the GOB USD 50 million per year in the form of royalties for the purchase of 4.5 million cubic meters of natural gas per day. This amount could be increased to USD 500 million per year with the export of an additional 20 million cubic meters per day to Argentina for the GNA pipeline and the export of an additional 30 million cubic meters per day to Brazil. This amount of annual revenue would put Bolivia on a sustainable growth path.

Our Problems with Bolivia

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¶7. (C) A/S Shannon responded that the U.S. currently has two problems with Bolivia: the insults and the separation that this creates between the two governments, and the production of drugs. The nature of his personal attacks against President Bush and Secretary Rice make it more difficult for Morales to engage in a dialogue with the U.S. Fortunately, Morales most recent statements in South Africa suggest that he has lowered his tone.

¶8. (C) Regarding the production of drugs, Bolivia produces coca leaf and pasta, and a lesser amount of cocaine. The success of our anti-drug efforts in Bolivia had the effect of pushing cocaine production into the FARC-controlled area of Colombia. As a result, Colombia now controls the cocaine market in the U.S., while Peru and Bolivia control the cocaine market in Europe. If Colombian President Uribe wins reelection and succeeds reducing cocaine production in that country, the Colombian cocaine industry will be looking for a place to go. U.S. anti-drug efforts are based on three pillars: eradication, interception and alternative development. It is difficult to separate the three, and without foreign assistance, it will be difficult for the GOB to accomplish the first two. If our anti-drug efforts fail in Bolivia, the Colombian cocaine industry could move into that vacuum. This would have consequences for democracy in Bolivia and for drug trade, drug consumption and crime rates in Argentina and Brazil.

Bolivia's Land-Locked Status

¶9. (C) DeVido observed that Bolivia's land-locked status carried considerable weight in the national mind-set. For example, Bolivia has refused to export natural gas directly to Chile. It also insisted in including language in its natural gas export agreement with Argentina that "not one molecule" of Bolivian natural gas will be re-exported to Chile. Turning to the rest of the region, DeVido said that the political situation in Peru was very uncertain. However,

the new president of Ecuador seems very "normal." DeVido said he spoke to him at the Summit of the Americas in Mar del Plata and had come away with a good impression.

¶10. (C) DeVido also recommended that A/S Shannon meet with Andean Development Corporation (CAF) President Enrique Garcia. Garcia is a Bolivian, is from the altiplano, and has good relationships with all sectors of Bolivian society. Garcia is reasonable and could be helpful in establishing a dialogue with the Morales government. There are lots of complaints in Bolivia. They have lots of natural gas, but the people are not able to use it in their homes. The GOA has a proposal that it would like to discuss with the CAF that would use the monetization of Bolivian gas reserves to finance development natural gas distribution projects in Bolivia. The idea is to let Bolivians see the benefits of natural gas production in their daily lives. If this can not be done, there is little reason why they should want to support the production and export of natural gas to Argentina and elsewhere. DeVido said there is agreement that the U.S. and Argentina should work together. "Until now," DeVido said, "we have the same concerns that you have." Moreno recommended the development of joint U.S.-Argentina development projects using Argentina as "the point of the lance."

¶11. (C) A/S responded that it would be possible to have Argentina and Brazil work with the U.S. in Bolivia to avoid the radicalization of the Morales government. The projects in Bolivia should not be difficult. On the positive side, Morales' election represents the inclusion of formally

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marginalized groups in a democratic system.

The Argentine Economy

¶12. (C) A/S Shannon said he was interested in hearing about the GOA's economic plans, especially as it related to the participation of U.S. companies in the Argentine economy. DeVido summarized the GOA's recent economic accomplishments, noting that the GOA had renegotiated and reduced the country's private debt and paid off its IMF debt. Consequently, Argentina does not have to ask for help anymore. "Some day we will do something with the holdouts," he said, "but publicly I would have to deny that I said that." DeVido said that the Argentine economy had grown 9 percent per year for the last three years and Argentina needed at least 6 percent in 2006. "We can not accept 3 percent," he explained, "because we have too many social conflicts." For this reason, Argentina needs to attract foreign investment to maintain high levels of growth.

¶13. (C) Turning to U.S. companies, DeVido reviewed his ongoing efforts to encourage U.S. companies to invest in Argentina. He said he had recently to New York in December at the invitation of the Council of the Americas, where he had met with an audience of 300 businessmen who were "very interested in investing" in his areas of responsibility, e.g., energy, mining, transportation, communications, and infrastructure/public works. He had met separately with Deutschebank, Fintech, ExxonMobil, and CMS. He is now working with Argentine Consul General in New York Hector Timmerman to organize a reverse visit for U.S. investors to come to Buenos Aires in April. DeVido said he is also working with U.S. Secretary of Commerce Carlos Gutierrez to consider the U.S. digital TV standard for the digitalization of TV in Argentina and Brazil. And Citigroup has offered to finance combined-cycle thermal power products in Rosario. Newly established state oil company ENARSA signed agreements with Repsol YPF of Spain, Petrobras of Brazil and ANCAP of Uruguay to explore for oil in two offshore blocks east of Buenos Aires Province. He would like for U.S. companies to participate in offshore exploration some day. (Comment: The

GOA has also invited PDVSA of Venezuela to explore for oil in the offshore blocks, but no agreements have been signed. U.S. oil executives are not optimistic about the possibility of finding oil in these blocks. They note that over 50 offshore wells have been drilled in the last few decades and the only significant discovery has been the offshore natural gas deposits north of the island of Tierra del Fuego. End Comment.)

¶14. (C) Moreno said that the Ministry of Planning had argued in favor of U.S. companies for the last two years. If there was a problem in the 1990s, it was the lack of transparency in the privatization of public services. As a result, there are many companies that have high profit margins that are not justified. U.S. companies were not involved in the purchase of these companies because of the U.S. Foreign Corrupt Practices Act. The only exception was the "disgraceful" case of IBM paying bribes for a large computer sales contract with the state-owned Banco de la Nacion. U.S. companies are known for their entrepreneurial spirit," he said, "and that is what we want." (Comment: IBM Corporate Headquarters cooperated with the GOA in the investigation of the local IBM management's payment of bribes to state-owned Banco de la Nacion executives in a large computer sales contract in 1995. IBM Corporate Headquarters then changed the local management and removed anyone remotely associated with the alleged bribery. IBM is now one of the top five U.S. investors in Argentina and is the largest

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investor and employer in the information technology sector. End Comment).

¶15. (C) Returning to Argentina's investment climate, DeVido admitted that "the investment climate is not like the U.S.," but he claimed that "it is improving each day." He said he had good relationships with companies like AES, CMS, Pioneer, ExxonMobil, Cargill and Citigroup. "There are always differences," he said, "but not because they are U.S. companies." He then praised a series of dinners that the Ambassador had organized in late 2003 and early 2004 with GOA officials and U.S. CEOs from different sectors of the economy. These meetings had allowed the government to establish constructive relationships with U.S. companies during its first months in office.

Don't Get Hung Up on Trade

¶15. (C) DeVido also urged the U.S. to avoid the "FTAA-MERCOSUR debate and not centralize the bilateral relationship on this one point." "We understand that the U.S. and the EU have domestic political considerations and can not solve this problem overnight," he said, "but if you don't do something about agricultural subsidies, we can't do anything." Almost half of Argentina's USD 40 billion in exports in 2005 are agricultural, so it is a big issue for Argentina. Nevertheless, the U.S. and Argentina should not centralize the bilateral relationship on something that does not have a solution.

¶16. (C) A/S Shannon concluded that the U.S. understands that Argentina can be an important partner in Latin America. "We want economic development to trickle down to all sectors of society, not just some sectors," he said. Turning to the Summit of the Americas, he said that the press had tried to present the Summit as a conflict. The U.S. actually saw broad support for free trade and economic integration as the best way of achieving economic development and prosperity in the hemisphere. The U.S. wants to open markets. The U.S. is trying to eliminate agricultural subsidies, and President Bush recently said so in New York.

Comment

17 (C) DeVido is one of President Kirchner's closest and most trusted lieutenants. One of his top priorities is to ensure that the Argentine economy has sufficient energy supplies to continue to support Argentina's rapid economic recovery. DeVido understands better than anyone else that Bolivia is the key to obtaining the necessary supplies of inexpensive natural gas without a dramatic increase in the domestic natural gas prices. Consequently, he has devoted more time than any other senior GOA official to the Bolivia political stability/natural gas issue. DeVido is also the chief advocate within the GOA for working with the U.S. and Brazil to ensure that political stability is maintained in Bolivia and that a pragmatic government is in place to negotiate and sustain a major, long-term natural gas agreement with Argentina. The negotiation of this agreement and the construction of the related USD 1.2 billion GNA pipeline would raise GOB revenues by USD 200-500 million per year, or as much as 7 percent of GDP, depending on the negotiated price of the natural gas. It would also be a win for the GOA, the energy-starved provinces of northeast Argentina, Argentina's energy-intensive industrial sector centered around the city and port of Rosario, the builders and suppliers of the GNA pipeline led by the Argentine

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industrial company Techint, Chile, which would be less vulnerable to an eminent cut-off of natural gas exports from Argentina, and the U.S., which would no longer have to be concerned about the perennial fiscal deficits of the GOB. The Embassy will continue to work closely with the GOA to assure maximum cooperation on Bolivia. End Comment.
GUTIERREZ